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# Directive 93-2: Credit For Taxes Due To Other Jurisdictions

## Facts

Taxpayer is a resident of Massachusetts with \$100,000 of Part B gross income subject to the Massachusetts personal income tax. Taxpayer is also subject to the 8% personal income tax in State X and the 2% personal income tax in State Y. Of Taxpayer's \$100,000 Part B gross income, \$40,000 is subject to tax in State X and \$10,000 is subject to tax in State Y.

## Issue

Does Taxpayer have to separately compute credits for taxes due to other jurisdictions for each state?

## Directive

No. Taxpayer may compute the credit against Massachusetts income tax for taxes due to other jurisdictions on an aggregate basis.

## Discussion of Law

Massachusetts residents are allowed a credit against the Massachusetts personal income tax "for taxes due any other state, territory or possession of the United States, or the Dominion of Canada or any of its provinces on account of any item of Massachusetts gross income...." G.L. c. 62, § 6(a). The credit allowable is limited to the lesser of "such taxes due ([see 1 below](#))... or the amount of tax imposed by this chapter multiplied by a fraction the numerator of which is such item of Massachusetts Part A or Part B gross income and the denominator of which is the total Massachusetts Part A or Part B gross income, as the case may be." G.L. c. 62, § 6(a).

Generally, when a taxpayer is subject to tax in at least two other jurisdictions the credit amount will be the same whether computed separately for each jurisdiction or on an aggregate basis. However, when one jurisdiction has a tax rate higher than the Massachusetts tax rate and another jurisdiction has a tax rate lower than the Massachusetts tax rate, a higher credit will result from an aggregate computation ([see 2 below](#)). Using the facts ([see 3 below](#)) under this Directive, the difference in result is demonstrated as follows:

## Separate Computation

Tax due in State X: \$ 40,000 x 8% = \$3,200

Tax due in State Y: \$ 10,000 x 2% = \$ 200

Massachusetts tax: \$100,000 x 5.95% = \$5,950

Credit for State X = lesser of \$2,380 (\$5,950 x 40,000)/( 100,000)

or \$3,200

Credit for State Y = lesser of \$ 595 (\$5,950 x 10,000)/( 100,000)

or \$200

Total Credit: \$2,580 (\$2,380 + \$ 200)

Aggregate Computation

Taxes due in States X & Y: \$3,400  
Massachusetts tax:  $\$100,000 \times 5.95\% = \$5,950$   
Credit for States X&Y = lesser of \$2,975 ( $\$5,950 \times \underline{50,000}$ )  
( 100,000)  
or \$3,400

Total Credit: \$2,975

Therefore, under the facts of this Directive, Taxpayer would be entitled to the higher credit under the aggregate computation.

Commissioner of Revenue

March 9, 1993

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(1) The taxes due the other jurisdictions shall exclude any interest and penalties and must be reduced by any federal credit allowable on the resident's federal income tax return. G.L. c. 62, § 6(a)(i)&(ii). In addition, taxpayers are not allowed a credit for income taxes due a city. See Letter Ruling 84-106. [Return to text](#)

(2) The credit is computed by utilizing gross income amounts and the eventual tax due on such items of gross income. As a result of various deductions, exemptions and adjustments all jurisdictions make to gross income before applying the nominal or marginal tax rate, the eventual tax owed represents an effective tax rate applied to the gross income amounts. Therefore, for purposes of this Directive, the term "tax rate" means the effective tax rate. [Return to text](#)

(3) See footnote 2 above. The tax rates used in these computations are hypothetical effective tax rates, though for example, the Massachusetts' effective tax rate would be lower than 5.95%. [Return to text](#)